Switch	Analog VGE	Digital VGE	% Enterprise
	****	****	

** indicates confidential information

According to the standards applied by the FCC, NuVox's switch is an enterprise switch and it may not be counted as a mass market switch trigger.

<u>**Xspedius**</u>

Q. Is Xspedius a legitimate candidate as a self-providing mass market switching trigger?

A. No. Based on information provided by Xspedius:

* Xspedius does serve a very limited number of small business customers in South Carolina utilizing its switches, Xspedius does not serve residential customers.

* Xspedius actively markets to medium and large business enterprise customers with a high demand for a variety of sophisticated data-centric telecommunications services and solutions.

* Xspedius currently serves only Begin Proprietary ** ** End Proprietary voice grade equivalent lines (VGEs) in South Carolina. Although Xspedius serves some analog lines, serving these DS-0 customers is not currently, and never has been, a significant part of Xspedius sales and marketing efforts.

EXHIBIT 17

The Pace Coalition, *et al.*
October 4, 2004
Exhibit 17

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:	)	
	)	**Docket No. 03-00491**
IMPLEMENTATION OF THE FEDERAL	)	
COMMUNICATIONS COMMISSION'S	)	**Filed: March 1, 2004**
TRIENNIAL REVIEW ORDER – 9 MONTH	)	
PROCEEDING MASS MARKET SWITCHING	)	

SURREBUTTAL TESTIMONY AND EXHIBITS OF
JOSEPH GILLAN
ON BEHALF OF COMPSOUTH

I. Introduction

Q. Please state your name and the party you are representing.

A My name is Joseph Gillan I previously filed direct and rebuttal testimony on behalf of CompSouth in this proceeding.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address BellSouth's claims in its rebuttal testimony that:

* The Tennessee Regulatory Authority (TRA) should ignore its own statutory objectives because *BellSouth* has concluded that the FCC would preempt Tennessee law (which should be sufficient to skip the step of actually asking the FCC to do so),

activity is trivial (generally ranging from 0.0% to 0.3%), with the largest purchaser of analog loops explaining it is no longer pursuing the strategy.[33] The following summarizes the confidential information in Exhibit JPG-7.

Table 3: Known and Maximum Share of Trigger Candidates

Claimed Trigger Candidate	Known Share	Maximum Share[34]
CLEC A	0.1%	0.2%
CLEC B	0.0%	0.0%
CLEC C	0.0%	0.0%
CLEC D	0.0%	0.1%
CLEC E	0.0%	0.0%
CLEC F	0.0%	0.0%
CLEC G	0.3%	0.3%
CLEC H	0.0%	
Total Share of All Triggers	0.5%	

Second, the activity is in broad decline, whether viewed in the aggregate of by individual CLEC[35] BellSouth's aggregate data shows that an unmistakable trend that analog UNE-L activity is insignificant and declining, as the facilities-based UNE-L strategy focuses on serving the enterprise market

Table 4: Types of UNE Loops (VGE)

UNE-Loop Type	May 2002	Nov 2003	Change
Total Analog UNE Loops (Mass Market)	43,039	34,347	-20%
Total DS-1 UNE Loops (Enterprise)	108,096	204,456	89%

is precisely why the CLEC community fully supported state-conducted hearings – to assure that false claims could be tested through discovery and cross examination

33 See Affidavit from Xspedius (attached)

34 Includes all unattributed analog loops in the share calculation for each claimed trigger

35 Table 3 on JPG-8 compares analog loop volumes for May 2002 and November 2003, which is the time period for which BellSouth provided data

EXHIBIT 18

The Pace Coalition, et al.
October 4, 2004
Exhibit 18

BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of BellSouth Telecommunications for, and Election of, Price Regulation	**)**	**Docket No. P-55 Sub 1013**

Direct Testimony
Of
Joseph Gillan
On Behalf of
The Competitive Telecommunications Association of the South
("CompSouth")

September 20, 2004

I. Introduction and Witness Qualification

Q. Please state your name and address.

A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando, Florida 32854. I am an economist with a consulting practice specializing in telecommunications.

Q. Please briefly outline your educational background and related experience.

A. I am a graduate of the University of Wyoming where I received B.A. and M.A. degrees in economics. From 1980 to 1985, I was on the staff of the Illinois Commerce Commission where I had responsibility for the policy analysis of issues created by the emergence of competition in regulated markets, in particular the telecommunications industry. While at the Commission, I served on the staff subcommittee for the NARUC Communications Committee and was appointed to the Research Advisory Council overseeing the National Regulatory Research Institute.

In 1985, I left the Commission to join U.S. Switch, a venture firm organized to develop interexchange access networks in partnership with independent local telephone companies. At the end of 1986, I resigned my position of Vice President-Marketing/Strategic Planning to begin a consulting practice. Over the past twenty years, I have provided testimony and/or sworn affidavits before more than 35 state commissions, five state legislatures, the Commerce Committee of the United States Senate, the Federal Communications Commission, and the Federal/State Joint Board on Separations Reform. In addition, I have provided expert reports to the Canadian Radio-Television and Telecommunications Commission, as well as the Finance Ministry of the Cayman Islands. I currently serve on the Advisory Council to New Mexico State University's Center for Regulation and as an invited lecturer at the annual regulatory training seminar sponsored by Michigan State University.

Q. On whose behalf are you testifying?

A. My testimony is sponsored by the Competitive Telecommunications Association of the Southeast ("CompSouth"). CompSouth represents firms that offer competitive services in the Southeast in competition with BellSouth and other incumbent local exchange carriers (ILECs).

Q. Are the views of BellSouth's competitors particularly relevant in this proceeding?

A. Yes. Although CompSouth's membership consists of companies that compete with BellSouth, it is important to understand that the interests of its members align closely with BellSouth's *legitimate* interests here. That is, where BellSouth *actually* faces competition, its competitors would be as interested in BellSouth having the ability to raise rates as BellSouth itself. Higher rates by the incumbent increase the competitive opportunity of the entrant – but only where the entrant can meaningfully compete.[1] Thus, if it were actually true that BellSouth faced the competition that it claims, its competitors would support granting it additional pricing flexibility.

The interests of CompSouth's members diverge from those of the BellSouth, however, where BellSouth does not face meaningful competition, but only claims that it does. Under such circumstances, BellSouth's ability to increase rates does nothing to enhance competitive opportunity. Rather, rate increases simply

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1 In effect, CompSouth's members provide the competitive process that must underlie any pricing flexibility granted to the incumbent in order for such flexibility to ultimately benefit consumers.

increase the incumbent's profits, enabling it to cross-subsidize[2] those services for which it does face competition.

Because of this unusual alignment of interests, the views of the competitive industry provide a useful barometer of competitive conditions and should be afforded significant weight. If BellSouth's claims of competition were legitimate, the competitive local providers (CLPs) would be supportive of regulatory relief; however, where the claims are contrived and inflated – as they are here – both CLPs and consumers would both be harmed.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is two-fold. First, my testimony provides a critical analysis of BellSouth's basic claim that competitive conditions in North Carolina justify changes to its price cap regulation plan. As I explain below, the data clearly demonstrate that local competition in North Carolina (as elsewhere) is almost entirely dependent upon access to the very unbundled network elements (UNEs) that BellSouth is working to eliminate – i.e., UNE-P and high capacity loops and transport.[3] In essence, BellSouth is engaged in a game of regulatory

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[2] I do not necessarily use the term "cross-subsidy" here in its technical sense (i.e., pricing below incremental cost). Rather, I refer to any circumstance where BellSouth uses revenues gained from captive customers to fund rate decreases for customers facing competition.

[3] It is telling that BellSouth's economic witness (Dr. Banerjee) discounts the importance of *actual* competition to the analysis, claiming that the market is *contestable* rather than competitive.

bait-and-switch, pointing to UNE-based competition as the reason to gain flexibility, while simultaneously working to eliminate it as well.

The unmistakable conclusion from any reasoned review of the data is that retail competition is critically dependent upon the terms, conditions and prices of wholesale arrangements supplied by BellSouth. Because BellSouth does not face meaningful non-UNE-based competition – and is aggressively seeking to terminate the still nascent UNE-based competition that lies at the heart of its request -- I recommend that the Commission deny BellSouth's request here for reduced regulation.

I do not end my testimony, however, with a recommendation that BellSouth's premature request be denied. Rather, I propose a system whereby, under the appropriate conditions (all intended to assure continued competition), BellSouth could gain additional regulatory flexibility. The central element of this recommendation is a price cap system that includes not only BellSouth's *retail* services, but its *wholesale* offerings as well. Properly developed, a wholesale price cap plan that assures competitive access and price stability to key UNE offerings would justify additional flexibility for BellSouth's retail services.

The Commission should be extremely skeptical of deregulatory proposals based on an economic theory that tries to explain the *absence* of competition, rather than measuring its actual existence.

II. Local Competition in BellSouth Territory

Q. Please summarize BellSouth's specific claims regarding competition in its North Carolina territory.

A. In notable contrast to its generalized claim that the local market is highly competitive in North Carolina, BellSouth offers little empirical evidence -- and even less analysis interpreting the empirical evidence – of actual competitive conditions. In summary form, BellSouth's testimony consists of the following points:

* A *residential* survey by Ms. Harrison that actually demonstrates that residential competition is dependent on the availability of UNE-P;

* *Small business* testimony from Mr. Blackmon that provides no systematic discussion of competitive conditions in the small business market, but concludes that BellSouth's 75% winback demonstrates that BellSouth still isn't at the "point we need to be;"[4]

* The *general* claim by BellSouth witness Tipton that the Commission need not be concerned if BellSouth succeeds in eliminating the most important means of competing for mass market customers (UNE-P), because other methods (which are either unproven or proven failures) remain; and

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[4] Blackmon Direct, page 4.

* A sweeping discussion by Mr. Ruscilli that focuses on claimed "intermodal" alternatives, while simultaneously sponsoring a consumer survey that demonstrates that, to the extent it develops at all, VoIP services are likely to appeal to a relatively narrow (and high income) segment of the population.

It is not my principal intention to challenge BellSouth's *estimates* of competitive activity. Rather, my purpose is to provide an *analysis* of those estimates that unambiguously demonstrates that competitive conditions in North Carolina are precarious (at best) and fundamentally dependent upon continuing strong action by the North Carolina Commission to assure that BellSouth's wholesale offerings – specifically UNE-P and high capacity loops and transport as UNEs -- remain available. Consequently, the Commission should not grant BellSouth *any* additional flexibility that is not balanced by clear and sustainable policies that promote local competition.

Wireline Competition in North Carolina

Q. What do you believe to be the most useful competitive statistics to the Commission's review here?

A. The most interesting competitive information is an analysis of data that BellSouth provided, but never discussed. Namely, the data that reveals what has happened in North Carolina since the Commission last reviewed local conditions in conjunction with BellSouth's application for interLATA authority. This comparison demonstrates that local competition is generally in broad *retreat* in the BellSouth region, with the notable exception of UNE-P.[5]

Table 1: Comparing North Carolina Competitive Conditions

Entry Strategy	June 2002[6] §271 Application	May 2004[7] Price Application	Change
Resale	46,307	23,035	-23,272
UNE-P	55,075	231,955	176,880
UNE-L[8]	51,221	42,811	-8,410
Other	238,845	225,528	-13,317
	391,448	523,329	131,881

As Table 1 shows, local competition has generally been "in reverse" ever since BellSouth's markets were accepted as being "irreversibly open." Even the competitive success of UNE-P serving the mass market must be placed in context – the nearly two-year gain shown by the data equates to a competitive share gain of only 7%.[9] Moreover, BellSouth itself expects these lines to return to it, with

5 As I explain later, BellSouth's discovery responses make clear that local competition in the enterprise market is also growing relying on high capacity (DS-1) loops. However, both forms of competition – mass market competition using UNE-P and enterprise competition using high capacity loops – is being threatened by BellSouth's continuing litigation. Until policies exist that stabilize these forms of competition, the Commission should not grant BellSouth any additional regulatory freedom.

6 Reply Affidavit of Elizabeth Stockdale, Federal Communications Commission WC Docket 02-150 (BellSouth 5 State Application).

7 BellSouth Exhibit PAT-2.

8 Measured in lines (converted from voice grade equivalents) to make data comparable between JAR-4 and Stockdale Reply Affidavit.

9 BellSouth Retail Lines from BellSouth Form 477 (Local Competition Reports) for December 2003.

its CFO telling investors: "At the end of the day, I think we'll get the bulk of those customers back."[10]

Moreover, the claimed level of competitive activity is sensitive to the level of "pure" facilities-based competition (shown above as "other") that BellSouth estimates, but cannot directly measure. Importantly, there is significant difference between the number of facilities-based lines that BellSouth *claims* exists, and the number of competitive lines suggested by the traffic that BellSouth exchanges with CLP networks. Specifically, the level of local traffic that BellSouth receives from competitor networks is a small fraction of the level one would expect if these networks actually served the number of lines that BellSouth claims. As shown in Table 2, the minutes that BellSouth receives from CLPs suggests a level of facilities-based competition that is only ¼ the level claimed by BellSouth.

[10] *Baby Bells Seeing Rivals Taking Fewer Phones, Reuters*, September 10, 2004.

Table 2: Comparing BellSouth's Claimed Estimate of Facilities-Based Lines to the Number of Lines Suggested by its Traffic-Exchange Data

Average Minutes/Month Originating on CLP Networks and Terminated by BellSouth[11]	343,843,412
Average Originating Usage per Line[12]	1,555
Implied CLP Switch-Based Lines (Based on Average Usage)	221,147
Less UNE-L (VGE)[13]	-164,840
Number of CLP Facility-Based Lines that is consistent with measured interconnection minutes	56,307
Facility-Based Lined Claimed by BellSouth	225,528
Percentage of facilities-based lines claimed by BellSouth that is supported by the number of minutes exchanged with CLPs	25%

As Table 2 demonstrates, there are simply not enough minutes originating on CLP networks to validate the level of lines that BellSouth claims these networks serve. There are only three logical possibilities that arise from this discrepancy. Either: (a) CLP networks attract customers with amazingly low levels of calling, (b) CLP customers only call each other, or (c) BellSouth overstates the lines served by competitor's networks. Because there is no reason for the first two circumstances to be true, the most likely explanation for the discrepancy is the later.[14]

11 Source: BellSouth Response to AT&T Item No. 9.

12 Source: BellSouth Dial Equipment (Switch) Minutes, ARMIS 43-04.

13 Because UNE-L lines connect to a CLP switch, the total number of switch-based CLP lines must be reduced by the number of UNE-L lines to identify only those lines that are facilities-based.

14 Alternatively, CLP networks may be dominated by lines that receive calls (but do not place any), such as lines used sold to Internet service providers. If so, such lines should not be considered by the Commission as evidence of end-user competition and BellSouth should not be afforded any additional *retail* pricing flexibility as a result.

Q. Do other data confirm the trend identified in Table 1 – namely that the growth of local mass market competition in North Carolina (to the extent it exists) is heavily dependent upon UNE-P?

A. Yes. The FCC requires BellSouth to routinely file local competition reports detailing competitive activity that relies on facilities obtained from the ILEC as resale, UNE-L and UNE-P. These data confirm the fact that competition from forms of competition other than UNE-P is generally declining in BellSouth's North Carolina territory.

Table 3: BellSouth FCC Local Competition Reports (North Carolina)

Entry Strategy	December 2002	December 2003	Change
Resale	39,546	31,702	-7,844
UNE-L	51,890	50,649	-1,241
UNE-P	110,720	147,532	36,812
	202,156	229,883	

The above tables illustrate important facts: While local competition in North Carolina may be growing (in absolute terms), that growth is largely dependent upon the gains in mass market competition made possible by UNE-P. Competition based on UNE-L (with one exception, discussed below) and non-UNE facilities is declining, with strong evidence indicating that the claimed level of competition on non-UNE facilities is exaggerated.

Q. What is the "exception" to the conclusion that UNE-L based competition is declining in North Carolina?

A. Data from the state-level Triennial Review Proceedings indicated that enterprise competition is also growing, with BellSouth reporting increased volumes of high-capacity (DS-1) UNE-loops to CLPs serving this customer segment. These data are confirmed here, showing that the UNE-L growth is limited entirely to the high-speed DS-1 connections used to serve enterprise customers.

Table 4: Understanding UNE-L Activity
(June 2002 to June 2004)[15]

Type of UNE-L	Change
Analog	-14%
DS1[16]	66%
DS-1 EEL (Loop + Transport)	169%

The bottom line is unmistakable: Competition for the analog POTS customers in North Carolina is dependent upon the UNE combination known as UNE-P, while competition for enterprise customers requires access to high capacity loops and the loop/transport combination known as an EEL. Unfortunately, as indicated earlier, the only forms of competition growing in North Carolina are *exactly* the competitive strategies that BellSouth is committed to eradicating.

Q. Does BellSouth's testimony contradict these findings?

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15 Source: BellSouth Response to AT&T Item 8.

16 Because BellSouth reports UNE-L volumes to the FCC on a "line count basis," the much larger capacity (measured in voice grade equivalents) of a DS-1 is not considered in the report and the decrease in analog loops more than offsets the increase in DS-1s.

A. No. To the contrary, its testimony supports these findings, both in substance and by the emphasis that BellSouth places on so-called "intermodal" alternatives. Attempting to shift the debate to "intermodal" forms of competition would not be so important if BellSouth were actually able to show wireline competition sufficient to justify its request.

Q. What does BellSouth's testimony specifically show with respect to residential wireline competition?

A. With respect to residential competition, BellSouth sponsored the testimony of Ms. Harrison, purporting to show that residential customers in rural areas enjoy competitive choice. What her testimony really shows, however, is that the <u>only</u> form of wireline competition available to residential customers is competition based on UNE-P. Each of the companies that Ms. Harrison points to as serving residential customers – AT&T, MCI, Access Integrated Network, LecStar and Z-Tel – offers mass market services using UNE-P.

Moreover, in the rural exchange that Ms. Harrison focused her analysis (Morgantown), BellSouth leases not a single stand-alone UNE loop.[17] This dependency on UNE-P is further documented by the testimony of Mr. Ruscilli -- according to Mr. Ruscilli, there are no unbundled loops being leased by BellSouth

[17] Source: BellSouth Response to AT&T No. 22.

in Zone 3 other than as part of UNE-P, and fewer than 800 loops in all of Zone 2 (a market share of 0.2%) are sold on a standalone basis. BellSouth offered no testimony demonstrating the existence of residential competition from methods other than UNE-P in North Carolina.[18]

Q. What "evidence" did BellSouth put forth concerning competition in the small business market?

A. BellSouth offered practically no evidence concerning competition in the business market, adopting the view that competition in this market is self-evident:

> It is well documented that business customers have numerous choices for telecommunications services as evidenced by my testimony and that of Mr. Blackmon representing Small Business Services.[19]

Mr. Ruscilli's testimony, however, offered no analysis of competition in the business market, and Mr. Blackmon's testimony was largely anecdotal. While there is no question that BellSouth loses *some* business customers to competition, the relevant questions for this proceeding are (a) *how* do competitors serve the various business markets and (b) can the Commission assume that such options will *continue* in the future?

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[18] I explain in the final section of my testimony how the Commission should construct a price regulation plan that assures continued retail competition.

[19] Ruscilli Direct, page 17.

With respect to the first of these questions, the analog small business market, like the residential market, is served almost entirely by UNE-P. The "enterprise" portion of the small business market – i.e., those customers desiring services that combine voice and data on a high-capacity loop – are dependent upon availability of high-capacity loops. Thus, even when BellSouth can find competition, it cannot show that the competition would continue in the absence of the UNE-offerings upon which the competition depends.

Q. Do other BellSouth data confirm your description of competition in the wireline market?

A. Yes. BellSouth's quarterly earnings release suggests that BellSouth is coming to dominate the small business market as much as it dominates the residential market.[20] A simple method to judge BellSouth's segment penetration is by its announced penetration of the long distance market. Because of the popularity of local/long distance packages, BellSouth's "long distance share" is a useful measure of its "packaged-services share."

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[20] The small business customer is quickly becoming the forgotten man of telecom policy. The small business sector provides the backdrop of our daily lives – sandwich shops, barbers, florists, auto-repair facilities, and others for whom basic phone service meets their communication needs today and for the foreseeable future. The Small Business Administration reports that the small business sector is responsible for providing most people with their first job, hires a disproportionate share of minorities and the elderly, and is routinely responsible for providing the job growth that pulls the nation from its periodic recessions. As a policy concern, competition for the small business sector should rank on equal terms with residential competition.

Table 5: BellSouth Share of Long Distance Market[21]

Residential	Small Business
39%	48%

Particularly in an environment where the largest packaged-service competitor (AT&T) has announced its withdrawal from the market (and where MCI has significantly cutback its customer acquisition activities), the Commission should view BellSouth's rapid dominance with alarm -- BellSouth is rapidly gaining a level of dominance in the local/long distance market equal to that it enjoyed as a pure local provider. Moreover, BellSouth's growing dominance in the small business sector is occurring even faster than in the residential marketplace.

Q. **What lessons can be drawn from the competitive wireline data provided in this proceeding?**

A. There a number of conclusions that can be drawn from the levels of wireline competition in North Carolina today. The most important conclusion is that, with rare exception, the competition BellSouth currently faces is dependent upon access methods – UNE-P and high-capacity loops and transport – that BellSouth is seeking to eliminate. This fact is demonstrated again and again, both in the

21 BellSouth Form 10-Q Filing, Securities and Exchange Commission, for the quarter ending June 30, 2004.

aggregate data that are available, as well as the market-specific information provided by BellSouth's witnesses.

For instance, Ms. Harrison's analysis of "rural choice" proves only that UNE-P providers are the only choices available. Similarly, Mr. Ruscilli's "Consumer Survey" (which I discuss in more length below) reveals that the principal competitors in the residential market are AT&T and MCI, both of whom rely on UNE-P.[22]

The fact is that wireline competition in the BellSouth territory is linked entirely to UNE-availability. I speak in more detail concerning the implications from this conclusion in the last section of my testimony.

B. Intermodal Competition in the BellSouth Territory

Q. With wireline competition dependent upon those UNEs that BellSouth seeks to eliminate, where does BellSouth claim competition will come from in the future?

[22] The Glover Park Survey indicates that UNE-P based entrants (AT&T, MCI, Sprint and AIN) are responsible for over two-thirds (roughly 11% of the 15%) of residential customers served by competitors, with the remaining competition coming from entrants either unnamed by the Glover Park study (3%) or unknown (1%).

A. The other general area where BellSouth claims it faces competition is from so-called intermodal competitors; in particular, wireless service and "voice over internet protocol" (VoIP) services that are only beginning to be deployed. As I explain below, however, neither is currently a viable substitute for wireline service.

Q. What evidence has BellSouth provided that wireless service is a substitute for wireline service?

A. To be clear, BellSouth never provides *evidence* that wireless service is a substitute for wireline service. The concept of a substitute in economics is quite clear – it means that customers will respond to a price increase by shifting to an alternative, thereby causing the net effect of the price increase to be unprofitable.

BellSouth is fully aware of what it takes for one service to be considered a substitute for another. BellSouth's economic testimony in the Cingular/AT&T Wireless[23] acquisition is quite clear that *wireless and wireline are separate product markets*: [24]

23 AT&T Wireless is no longer affiliated with AT&T and currently uses its brand name under a licensing agreement.

24 To be precise, BellSouth's pleadings before the FCC on the Cingular/AT&T Wireless merger are filed by Cingular, the wireless affiliate that it jointly owns with SBC.

> *The relevant product* market for the analysis of this transaction *excludes wireline services*. Although there is some competition between wireless and wireline services, it is not currently sufficient to conclude that a wireless-only product market is too small for antitrust analysis of this transaction. Specifically, consumer substitution from wireless to wireline would not be sufficient to make unprofitable a small but significant and non-transitory price increase by a hypothetical monopoly supplier of mobile wireless service. At the present time, wireline service is sufficiently differentiated from wireless service to exclude wireline from the relevant product market.[25]

In other words, wireless service and wireline service should *not* be considered substitutes because a rate increase for one would *not* cause consumers to shift to the other. As a result, according to BellSouth's expert economist – or rather, according to the expert economist BellSouth sponsors before the FCC[26] -- price increases for wireline would produce higher profits because consumers would not shift to wireless service.

Q. **Is there any plausible reason to believe that wireless service is a substitute for the small business customer?**

A. No. As I indicated earlier, the small business customer is becoming the forgotten man of telecom policy. It is difficult to imagine the prototypical small business eliminating its wireline phone service (which comes with the important yellow

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[25] Sworn Affidavit of Richard J. Gilbert before the Federal Communications Commission, WT Docket No. 04-70, filed March 18, 2004 (emphasis added).

[26] Without explanation, BellSouth's economist in *this* proceeding contradicts BellSouth's sworn affidavit before the FCC, claiming here that wireless service is in the same product market as wireline service. *See* BellSouth Response to AT&T Item No. 15.

pages listing) and relying exclusively on wireless service. (Good morning, Acme Pets. Can you hear me now?). Although BellSouth makes vague assertions concerning competition from wireless service,[27] it offers no discussion as to the differences between the small business and residential markets, suggesting that it views wireless service as a substitute in each, but never explaining – much less documenting – why that would be the case.

Q. Do the RBOCs generally treat wireless service as a substitute or complement to wireline service?

A. The RBOCs (Cingular included) generally approach wireless service as a complement to their wireline services, frequently offering packages that include both wireline and wireless service.[28] If customers perceived these products as substitutes, it would make little sense to market them jointly. Bundled local/wireless offerings are clearly successful -- 80% of Cingular's wireless subscribers are located in the territory of its wireline parents,[29] suggesting a success rate in the BellSouth/SBC territory roughly 4 times greater than elsewhere.

[27] According to the Glover Park Study (Q11), nearly 80% of the residential wireless market is served by an affiliate of an ILEC.

[28] For instance, BellSouth discounts Cingular bills when customers add calling features or choose Complete Choice or Area Plus.

[29] Presentation of Randall Stephenson, SBC Senior Executive Vice President, to Lehman Brothers Telecom Trends and Technology Conference, December 9, 2003.